

VALLEY COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Officials	4
Independent Auditor's Report	5-7
Management's Discussion and Analysis	8-17
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Position	A 19
Statement of Activities	B 20
Governmental Fund Financial Statements:	
Balance Sheet	C 21
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D 22
Statement of Revenues, Expenditures and Changes in Fund Balances	E 23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 24
Proprietary Fund Financial Statements:	
Statement of Net Position	G 25
Statement of Revenues, Expenses and Changes in Fund Net Position	H 26
Statement of Cash Flows	I 27
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Net Position	J 28
Notes to Financial Statements	29-45
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	47
Notes to Required Supplementary Information - Budgetary Reporting	48
Schedule of Funding Progress for the Retiree Health Plan	49

TABLE OF CONTENTS (continued)

Supplementary Information:	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	52
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	53
Capital Project Accounts:		
Combining Balance Sheet	4	54
Combining Schedule of Revenues, Expenditures and Changes in Balances	5	55
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Account	6	56
Schedule of Revenues by Source and Expenditures By Function - All Governmental Funds	7	57
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		58-60
Schedule of Findings		61-63

VALLEY COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
-------------	--------------	---------------------

BOARD OF EDUCATION

Mark Howard	President	2013
Dawn Daughton	Vice President	2015
Tim Orr	Board Member	2013
Stacy Cummings	Board Member	2015
Eileen Schlawin	Board Member	2015

SCHOOL OFFICIALS

Cathy Molumby	Superintendent	2013
Melissa Fettkether	District Treasurer and Business Manager	Indefinite
Carole Nading	District Secretary	Indefinite
Steven A. Wiedner	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

Independent Auditor's Report

To the Board of Education of
Valley Community School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District, Elgin, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 17 and 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing

procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2013 on our consideration of Valley Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Valley Community School District's internal control over financial reporting and compliance.

Elkader, Iowa

November 1, 2013



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

Valley Community School District

23493 Canoe Road

Elgin, Iowa 52141

Ph. 563-426-5501 Fax: 563-426-5502



Duane Willhite, Superintendent
Betsy Nefzger, Instructional Principal and Curriculum Director
Sharon Rich, School Administrator Manager

*Valuing the Past...
.....Looking to the Future!*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Valley Community School District provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial statements is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$ 4,735,096 in fiscal year 2012 to \$ 5,005,638 in fiscal year 2013, while General Fund expenditures decreased from \$ 4,833,294 to \$ 4,458,167. The District's General Fund balance increased from \$ 214,246 at the end of fiscal year 2012 to \$ 761,717 at the end of fiscal year 2013, a 256% increase.
- The fiscal year 2013 General Fund revenue increase was attributable to increases in local taxes. The decrease in expenditures was due to decreases in expenditures for both instruction and support services. The increase in General Fund balance was \$ 547,471 in fiscal 2013 compared to a decrease of \$ 98,198 in fiscal year 2012.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Valley Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Valley Community School District's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Valley Community School District acts solely as an agent for the benefit of those outside the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

1. Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund is the same as its business type activities but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in fund net position and a statement of cash flows.

3. Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. The District currently has one Fiduciary Fund, an Agency Fund. Agency Funds are funds through which the District administers and accounts for assets

that belong to the Northeast Iowa Health Occupation Consortium.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net position and a statement of changes in fiduciary net position.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The table below provides a summary of the District's net position at June 30, 2013 compared to June 30, 2012.

Condensed Statement of Net Position (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30		June 30		June 30		June 30
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 5,218	4,945	27	37	5,245	4,982	5.3%
Capital assets	3,703	3,751	9	11	3,712	3,762	-1.3%
Total assets	8,921	8,696	36	48	8,957	8,744	2.4%
Long-term liabilities	2,017	2,037	0	0	2,017	2,037	-1.0%
Other liabilities	2,293	2,628	18	23	2,311	2,651	-12.8%
Total liabilities	4,310	4,665	18	23	4,328	4,688	-7.7%
Net position:							
Invested in capital assets, net of related debt	2,868	2,711	9	11	2,877	2,722	5.7%
Restricted	1,500	1,488	0	0	1,500	1,488	.8%
Unrestricted	243	(168)	9	14	252	(154)	263.6%
Total net position	\$ 4,611	4,031	18	25	4,629	4,056	14.1%

The District's total net position increased 14.1%, or approximately \$573,000 from the prior year. The largest portion of the District's net position is invested in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased approximately \$ 12,000 or 0.8%.

Unrestricted net position - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$ 403,000 or 263.6%. This increase in unrestricted net position was a result of an increase in the General Fund balance of approximately \$ 547,000.

The following table shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012

		Changes in Net Position (Expressed in Thousands)					
		Governmental Activities		Business Type Activities		Total District	Total Change
		2013	2012	2013	2012	2013	2012-13
Revenues:							
Program revenues:							
Charges for service	\$ 476	443	124	122	600	565	6.2%
Operating grants and contributions	754	881	111	123	865	1,004	-13.8%
Capital grants and Contributions	181	0	0	0	181	0	0
General revenues:							
Property tax	1,928	1,614	0	0	1,928	1,614	19.5%
Statewide sales, services and use tax	378	403	0	0	378	403	-6.2%
Income tax surtax	113	101	0	0	113	101	11.9%
Unrestricted state grants	1,968	1,938	0	0	1,968	1,938	1.5%
Unrestricted investment Earnings	22	22	0	0	22	22	0.0%
Other	29	42	1	0	30	42	-28.6%
Total revenues	5,849	5,444	236	245	6,085	5,689	7.0%

Program expenses:

Governmental activities:

Instruction	3,466	3,661	0	0	3,466	3,661	-5.3%
Support services	1,479	1,567	0	0	1,479	1,567	-5.6%
Non-instructional programs	3	3	243	242	246	245	0.4%
Other expenses	321	329	0	0	321	329	-2.4%
Total expenses	5,269	5,560	243	242	5,512	5,802	-5.0%
Change in net position	\$ 580	(116)	(7)	3	573	(113)	607.1%

In fiscal year 2013, property tax and unrestricted state grants accounted for 66.6% of governmental activities revenue while charges for service and operating grants and contributions accounted for 99.6% of business type activities revenue.

The District's total revenues were approximately \$ 6.09 million of which approximately \$ 5.85 million was for governmental activities and approximately \$ 236,000 was for business type activities.

As shown above, the District as a whole experienced a 7.0% increase in revenues and a 5.0% decrease in expenses. Property tax increased approximately \$ 314,000. Total expenses decreased approximately \$ 290,000 due to board response to a decrease in carryover spending authority.

Governmental Activities

Revenues for governmental activities were \$ 5,849,804 and expenses were \$ 5,269,616 for the year ended June 30, 2013. In a difficult budget year, the District was able to balance the budget by trimming expenses and increasing revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Total and Net Cost of Governmental Activities (Expressed in Thousands)						
Total Cost of Services			Net Cost of Services			
Change			Change			
2013	2012	2012-13	2013	2012	2012-13	
Instruction	\$ 3,466	3,661	-5.3%	\$ 2,515	2,589	-2.9%
Support services	1,479	1,567	-5.6%	1,380	1,494	-7.6%
Non-instructional	3	3	0.0%	3	3	0.0%

Other expenses	321	329	-2.4%	(40)	150	-126.7%
Total	\$ 5,269	5,560	-5.2%	\$ 3,858	4,236	-8.9%

For the year ended June 30, 2013:

The cost financed by users of the District's programs was \$ 476,107.

Federal and state governments subsidized certain programs with grants and contributions totaling \$ 935,110.

The net cost of governmental activities was financed with \$ 2,418,199 in property and other taxes and \$ 1,968,491 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2013 were \$ 235,571, representing a 4.0% decrease from the prior year, while expenses totaled \$ 242,665, an 0.4% increase from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$ 2,926,867, well above last year's ending fund balances of \$ 2,320,938. The primary reason for the increase was the District implementing a cash reserve levy which increased the General Fund balance \$ 547,471.

Governmental Fund Highlights

The General Fund balance increased from \$ 214,246 to \$ 761,717, primarily due to the District implementing a cash reserve levy.

The Capital Projects Fund balance increased \$ 80,469 from \$ 1,751,461 in fiscal year 2012 to \$ 1,831,930 in fiscal year 2013, primarily due to the District not spending all of its PPEL levy in fiscal 2013.

Proprietary Fund Highlights

Revenues of the District's Nutrition Fund decreased 4.0% to \$ 235,571 while expenses increased 0.4% to \$ 242,665. The Nutrition Fund's decrease in net position for fiscal year 2013 was \$ 7,094 bringing its net position to \$ 17,933.

BUDGETARY HIGHLIGHTS

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget." In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its agency fund. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis. It is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The District's revenues were \$ 322,923 more than budgeted revenues, primarily due to the District receiving a FEMA grant for a safe room.

Total expenditures were \$ 61,679 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and non-instructional programs functional areas due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash." It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unassigned General Fund balance) of the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested approximately \$ 3.71 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. **(See following chart.)** More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year in the governmental activities was \$ 299,170.

The original cost of the District's capital assets was approximately \$ 6.78 million. Governmental activities accounted for approximately \$ 6.70 million with the remainder of approximately \$ 0.08 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. Cost incurred for the safe room totaled \$ 231,963.

Capital Assets, net of Depreciation (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2012-13
Land	\$ 33	33	-	-	33	33	0.0%
Construction in progress	269	37	-	-	269	37	627.0%
Site improvements	118	127	-	-	118	127	-7.1%
Buildings	3,029	3,138	-	-	3,029	3,138	-3.5%
Furniture and equipment	254	416	9	12	263	428	-38.6%
Total	\$ 3,703	3,751	9	12	3,712	3,763	-1.4%

Long-Term Debt

At June 30, 2013, the District had \$ 1,665,000 in long-term debt outstanding. This represents a decrease of approximately 9% from last year. (See following chart.)

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$ 5.6 million.

Outstanding Long-Term Obligations (Expressed in Thousands)			
	Total District		Total Change
	June 30, 2013	June 30, 2012	June 30, 2012-13
Revenue bonds	\$ 325	425	-23.5%
Capital loan notes	1,340	1,340	0.0%
Capital leases	0	65	-100.0%
Totals	\$ 1,665	1,830	-9.0%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances which could significantly affect its financial health in the future:

- The District has entered into a whole grade sharing agreement with the North Fayette Community School District effective July 1, 2013 and shall terminate June 30, 2016 unless terminated sooner by majority vote of either Board of Education, extended longer by majority vote of either Board of Education, or terminated by operation of law. During the term of this agreement, each district shall maintain its own Pre-kindergarten through sixth grade. Grades seven and eight from both school districts will be located in the Valley Community School facility, while grades nine through twelve from both school districts will be located in the North Fayette Community High School facility. Both districts agree that arrangements for Special Education students will be made separately and bill back to the resident district as actual costs.
- Taxable valuations increased approximately 4.4%. However, because of a 13% reduction in tax rates, property tax revenues are budgeted to decrease approximately \$ 176,500.
- The District expects the downward trend in enrollment to continue and state foundation aid is, therefore, budgeted to decrease approximately \$ 168,000.
- Taking all of the above into account, ending fund balance is budgeted to decrease approximately \$ 641,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Fettkether, Business Manager/District Treasurer.

BASIC FINANCIAL STATEMENTS

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
Year Ended June 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash, cash equivalents and pooled investments	\$ 3,036,375	10,350	3,046,725
Receivables:			
Property tax:			
Delinquent	83,614	-	83,614
Succeeding year	1,574,831	-	1,574,831
Accounts	567	233	800
Due from other funds	17,076	-	17,076
Due from other governments	505,080	-	505,080
Inventories	-	16,578	16,578
Capital assets net of accumulated depreciation	3,703,022	9,290	3,712,312
TOTAL ASSETS	8,920,565	36,451	8,957,016
LIABILITIES			
Accounts payable	158,381	1,920	160,301
Salaries and benefits payable	436,695	15,288	451,983
Due to other governments	20,172	-	20,172
Accrued interest payable	2,257	-	2,257
Deferred revenue:			
Succeeding year:			
Property tax	1,574,831	-	1,574,831
Income tax surtax	100,597	-	100,597
Other	-	1,310	1,310
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	325,000	-	325,000
Notes	340,000	-	340,000
Compensated absences	5,797	-	5,797
Early retirement	64,757	-	64,757
Portion due after one year:			
Notes	1,000,000	-	1,000,000
Early retirement	158,868	-	158,868
Net OPEB liability	122,294	-	122,294
TOTAL LIABILITIES	4,309,649	18,518	4,328,167
NET POSITION			
Net investment in capital assets	2,868,035	9,290	2,877,325
Restricted for:			
Categorical funding	263,020	-	263,020
Physical plant and equipment	221,607	-	221,607
Student activities	84,569	-	84,569
Debt service	931,012	-	931,012
Unrestricted	242,673	8,643	251,316
TOTAL NET POSITION	\$ 4,610,916	17,933	4,628,849

See notes to financial statements.

Exhibit B

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash, cash equivalents and pooled investments	\$ 1,110,133	1,591,886	334,356	3,036,375
Receivables:				
Property tax:				
Delinquent	76,967	4,061	2,586	83,614
Succeeding year	1,386,410	98,421	90,000	1,574,831
Accounts	567	-	-	567
Due from other funds	31,096	20,725	-	51,821
Due from other governments	246,261	258,759	60	505,080
TOTAL ASSETS	\$ 2,851,434	1,973,852	427,002	5,252,288
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 141,901	12,698	3,782	158,381
Salaries and benefits payable	436,695	-	-	436,695
Due to other governments	20,172	-	-	20,172
Due to other funds	20,725	14,020	-	34,745
Deferred revenue:				
Succeeding year:				
Property tax	1,386,410	98,421	90,000	1,574,831
Income tax surtax	83,814	16,783	-	100,597
Total liabilities	2,089,717	141,922	93,782	2,325,421
Fund balances:				
Restricted for:				
Categorical funding	263,020	-	-	263,020
Debt service	-	931,012	107,507	1,038,519
Management levy purposes	-	-	141,144	141,144
Student activities	-	-	84,569	84,569
School infrastructure	-	679,311	-	679,311
Physical plant and equipment	-	221,607	-	221,607
Assigned for:				
Pepsi grant	5,832	-	-	5,832
Spell-a-thon	14,525	-	-	14,525
Food and fitness	924	-	-	924
Green schools	6,620	-	-	6,620
Unassigned	470,796	-	-	470,796
Total fund balances	761,717	1,831,930	333,220	2,926,867
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,851,434	1,973,852	427,002	5,252,288

See notes to financial statements

VALLEY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total fund balances of governmental funds (page 21) \$ 2,926,867

Amounts reported for governmental activities in the Statement
of Net Position are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported as assets in the
governmental funds. 3,703,022

Accrued interest payable on long-term liabilities is not due and
payable in the current period and, therefore, is not reported
as a liability in the governmental funds. (2,257)

Long-term liabilities, including bonds and notes payable,
capital leases payable, compensated absences payable,
early retirement payable and other post employment
retirement benefits payable are not due and payable in the
current year and, therefore, are not reported in the
governmental funds (2,016,716)

Net position of governmental activities (page 19) \$ 4,610,916

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 1,946,978	468,635	2,586	2,418,199
Tuition	185,326	-	-	185,326
Other	131,664	20,504	171,164	323,332
State sources	2,529,855	21,397	-	2,551,252
Federal sources	211,815	159,882	-	371,697
Total revenues	5,005,638	670,418	173,750	5,849,806
Expenditures:				
Current:				
Instruction:				
Regular	1,914,354	1,060	57,023	1,972,437
Special	814,368	-	-	814,368
Other	257,440	-	165,471	422,911
	2,986,162	1,060	222,494	3,209,716
Support services:				
Student	125,947	-	1,235	127,182
Instructional staff	264,236	-	1,016	265,252
Administration	438,479	-	15,111	453,590
Plant operation and maintenance	326,413	26,634	49,286	402,333
Transportation	135,632	44,550	9,211	189,393
	1,290,707	71,184	75,859	1,437,750
Non-instructional programs	1,810	-	1,244	3,054
Other expenditures:				
Facilities acquisition	-	238,338	-	238,338
Long-Term debt:				
Principal	-	-	164,652	164,652
Interest and fiscal charges	-	-	10,879	10,879
AEA flowthrough	179,488	-	-	179,488
	179,488	238,338	175,531	593,357
Total expenditures	4,458,167	310,582	475,128	5,243,877
Excess (deficiency) of revenues over (under) expenditures	547,471	359,836	(301,378)	605,929
Other financing sources (uses):				
Operating transfers in	-	-	279,367	279,367
Operating transfers out	-	(279,367)	-	(279,367)
Total other financing sources (uses)	-	(279,367)	279,367	-
Net change in fund balances	547,471	80,469	(22,011)	605,929
Fund balances beginning of year	214,246	1,751,461	355,231	2,320,938
Fund balances end of year	\$ 761,717	1,831,930	333,220	2,926,867

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2013

Net change in fund balances - total governmental funds (page 23) \$ 605,929

Amounts reported for governmental activities in the Statement of
 Activities are different because:

Capital outlays to purchase or build capital assets are reported
 in governmental funds as expenditures. However, those costs
 are not reported in the Statement of Activities and are allocated
 over their estimated useful lives as depreciation expense in the
 Statement of Activities. Depreciation exceeded capital outlay
 expenditures in the current year as follows:

Expenditures for capital assets	\$ 250,979	
Depreciation expense	<u>(299,170)</u>	(48,191)

Repayment of long-term liabilities is an expenditure in the govern-
 mental funds, but the repayment reduces long-term liabilities in the
 Statement of Net Position 164,653

Interest on long-term debt in the Statement of Activities differs
 from the amount reported in the governmental funds because
 interest is recorded as an expenditure in the funds when due.
 In the Statement of Activities, interest expense is recognized as
 the interest accrues, regardless of when it is due 2,101

Some expenses reported in the Statement of Activities do not
 require the use of current financial resources and, therefore
 are not reported as expenditures in the governmental funds as
 follows:

Early retirement	\$ (158,635)	
Compensated absences	45,111	
Other postemployment benefits	<u>(30,780)</u>	<u>(144,304)</u>

Changes in net position of governmental activities (page 20) \$ 580,188

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2013

	<u>School Nutrition</u>
ASSETS	
Current assets:	
Cash and pooled investments	\$ 10,350
Accounts receivable	233
Inventories	<u>16,578</u>
Total current assets	27,161
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>9,290</u>
 TOTAL ASSETS	 <u>36,451</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	1,920
Salaries and benefits payable	15,288
Deferred revenue	<u>1,310</u>
Total current liabilities	<u>18,518</u>
 TOTAL LIABILITIES	 <u>18,518</u>
 NET POSITION	
Investment in capital assets	9,290
Unrestricted	<u>8,643</u>
 TOTAL NET POSITION	 <u><u>\$ 17,933</u></u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2013

	School <u>Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ 124,030
Other	<u>563</u>
Total operating revenues	<u>124,593</u>
Operating expenses:	
Support services:	
Administration	<u>488</u>
Non-instructional programs:	
Food service operations:	
Salaries	94,879
Benefits	34,590
Purchased services	1,839
Supplies	108,729
Depreciation	<u>2,140</u>
	<u>242,177</u>
Total operating expenses	<u>242,665</u>
Operating loss	<u>(118,072)</u>
Non-operating revenues:	
State sources	1,907
Federal sources	108,946
Interest income	<u>125</u>
Total non-operating revenues	<u>110,978</u>
Decrease in net position	(7,094)
Net position beginning of year	<u>25,027</u>
Net position end of year	<u>\$ 17,933</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2013

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 121,233
Cash paid to employees for services	(131,151)
Cash paid to suppliers for goods or services	<u>(90,309)</u>
Net cash used by operating activities	<u>(100,227)</u>
Cash flows from non-capital financing activities:	
State grants received	1,907
Federal grants received	<u>89,575</u>
Net cash provided by non-capital financing activities	<u>91,482</u>
Cash flows from investing activities:	
Interest on investments	<u>125</u>
Net decrease in cash and pooled investments	(8,620)
Cash and pooled investments beginning of year	<u>18,970</u>
Cash and pooled investments end of year	<u>\$ 10,350</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (118,072)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	19,371
Depreciation	2,140
Decrease in inventories	597
Decrease in accounts receivable	257
Increase in accounts payable	216
Decrease in salaries and benefits payable	(1,682)
Decrease in deferred revenue	<u>(3,054)</u>
Net cash used by operating activities	<u>\$ (100,227)</u>

Non-cash operating and related non-capital financing activities:

During the year ended June 30, 2013, the District received \$ 19,371 of federal commodities.

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	<u>Agency</u>
ASSETS	
Due from other governments	<u>\$ 33,469</u>
LIABILITIES	
Accounts payable	16,393
Due to other funds	<u>17,076</u>
TOTAL LIABILITIES	<u>33,469</u>
NET POSITION	<u>\$ 0</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

(1) Summary of Significant Accounting Policies

Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Valley Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Valley Community School District had no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in two jointly governed organizations that provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

B. Basis of Presentations

Government-wide Financial Statements - The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net position and changes in net position. The District reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the District as an agent for other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other

revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are

stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Boards of Supervisors in April 2012.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal

maintenance and repair that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Year)</u>
Buildings	20-50
Improvements other than buildings	20
Furniture and equipment	3-12

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end. Deferred revenue in the proprietary fund financial statement consists of lunch fees collected in advance.

Deferred revenue in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, lunch fees collected in advance and unspent federal grants.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Board of Education intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures exceeded the amounts budgeted in the instruction and non-instructional programs functions.

(2) **Cash, Cash Equivalents and Pooled Investments**

The District's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$ 554,612 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAm by Standard & Poor's Financial Service.

Restricted Cash - At June 30, 2013, the Bank of America held \$ 535,287 in escrow for retirement of QZAB bonds (see Note 6).

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 14,020
	Agency	17,076
Capital Projects	General	20,725

The Capital Projects Fund is repaying the General Fund for lease payments made by the General Fund for a van and a building.

The General Fund is repaying the Capital Projects Fund for sales taxes that were initially recorded in the General Fund.

The Agency Fund is repaying the General Fund for items paid by the General Fund, while the Agency Fund was awaiting payment from other school districts.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 279,367</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 32,907	0	0	32,907
Construction in progress	37,455	231,963	0	269,418
Total capital assets not being Depreciated	<u>70,362</u>	<u>231,963</u>	<u>0</u>	<u>302,325</u>
Capital assets being depreciated:				
Buildings	4,960,427	14,434	0	4,974,861
Site improvements	199,536	0	0	199,536
Furniture and equipment	1,217,363	4,582	0	1,221,945
Total capital assets being Depreciated	<u>6,377,326</u>	<u>19,016</u>	<u>0</u>	<u>6,396,342</u>
Less accumulated depreciation for:				
Buildings	1,822,571	123,242	0	1,945,813
Site improvements	72,669	9,417	0	82,086
Furniture and equipment	801,235	166,511	0	967,746
Total accumulated depreciation	<u>2,696,475</u>	<u>299,170</u>	<u>0</u>	<u>2,995,645</u>
Total capital assets being Depreciated, net	<u>3,680,851</u>	<u>(280,154)</u>	<u>0</u>	<u>3,400,697</u>
Governmental activities Capital assets, net	<u>\$ 3,751,213</u>	<u>(48,191)</u>	<u>0</u>	<u>3,703,022</u>
Business type activities:				
Furniture and equipment	\$ 77,581	0	0	77,581
Less accumulated depreciation	66,151	2,140	0	68,291
Business type activities Capital assets, net	<u>\$ 11,430</u>	<u>(2,140)</u>	<u>0</u>	<u>9,290</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 123,894
Other	653

Support services:

Instructional staff	7,464
Plant operation and maintenance	3,633

Transportation	30,867
Unallocated	<u>132,659</u>
Total depreciation expense - governmental activities	<u>\$ 299,170</u>

Business type activities:	
Food service operations	<u>\$ 2,140</u>

(6) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30 2013 are summarized below:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 425,000	0	100,000	325,000	325,000
Notes Payable	1,340,000	0	0	1,340,000	340,000
Capital Leases	64,653	0	64,653	0	0
Compensated Absences	50,908	5,797	50,908	5,797	5,797
Early Retirement	64,989	199,422	40,786	223,625	64,757
Net OPEB Liability	91,514	30,780	0	122,294	0
Total	<u>\$ 2,037,064</u>	<u>235,999</u>	<u>256,347</u>	<u>2,016,716</u>	<u>735,554</u>

Revenue Bonds Payable

Details of the District's June 30, 2013 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year	Bond Issue Sep 1, 2003	Bond Issued Dec 28, 2003	
Ending Interest	Interest		Total
June 30, Rates Principal Interest	Rates Principal	Principal Interest	Total
2014 4.30	<u>105,000 2,257</u>	<u>0 220,000</u>	<u>325,000 2,257 327,257</u>

The statewide sales, services and use tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the September 1, 2003 statewide sales, services and use tax revenue bonds included the following:

- A] \$ 85,000 of the proceeds from the issuance of the revenue bonds shall be deposited in the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited in the Project Account.
- B] All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- C] Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- D] Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The resolution providing for the issuance of the District's December 28, 2003 statewide sales, services and use tax revenue bond included the following provision:

To provide for the payments of the bonds at maturity there is established with the Bank of America, N.A. of Des Moines, Iowa, an irrevocable trust fund for the benefit of bondholders known as the Escrow Account to be invested as per the Investment Agreement. Annually, on July 1 of each year commencing July 1, 2005, there shall be deposited from the Sinking Fund into the Escrow Fund \$ 22,545 to be invested in accordance with the terms of the Investment Agreement. Such amount has been determined to be sufficient together with invested earnings thereon to pay when due the principal of the bonds. The Escrow Fund is pledged to the payment of the bonds at maturity. At June 30, 2012 the escrow account balance was \$ 191,896.

Notes Payable

During the year ended June 30, 2004, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On July 1 of each year commencing July 1, 2005, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 34,845 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity July 1, 2013. At June 30, 2013, the escrow account balance was \$ 305,174. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 34,845, the District

shall certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation.

During the year ended June 30, 2009, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Statewide Sales, Services and Use Tax Fund. On February 12 of each year commencing February 12, 2010, there shall be deposited from the Statewide Sales, Services and Use Tax Fund to the Escrow Fund \$ 84,400 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity February 12, 2019. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 84,400, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation. At June 30, 2013, the escrow account balance was \$ 343,392.

During the year ended June 30, 2010, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the PPEL Fund. On August 26 of each year commencing August 26, 2010, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 15,600 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity August 26, 2019. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 15,600, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation. At June 30, 2013, the escrow account balance was \$ 46,800.

Detail of the District's indebtedness under these agreements in effect at June 30, 2013 is as follows:

Year	December 28, 2003		February 12, 2009		August 26, 2009		
Ending	Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	\$ 340,000	0	0	0	0	0	340,000
2019	0	0	844,000	0	0	0	844,000
2020	0	0	0	0	156,000	0	156,000
Total	\$ 340,000	0	844,000	0	156,000	0	1,340,000

Early Retirement

In December, 2011, the District approved a voluntary early retirement plan for licensed employees. The plan was offered to employees until February 1, 2012. Eligible employees had to have completed ten (10) years of contracted service in

the Valley Community School District, have reached age 55 and be at least half time to qualify for early retirement. Electing employees will receive \$ 30,000 in accordance with one of the two following incentives: (a) a lump sum placed in a 403(b) account, or (b) single insurance coverage paid monthly at the health insurance premium rate up to \$ 30,000.

At June 30, 2013, the District had obligations to one participant under the plan with a total liability of \$ 24,204. Actual early retirement expenditures under this plan were \$ 35,156 for the fiscal year ended June 30, 2013.

For the fiscal year ended June 30, 2013, the District made early retirement expenditures of \$ 5,629 under a previous plan.

In November, 2012, the District approved a voluntary early retirement plan for certified employees. The plan was offered to employees until January 4, 2013. Eligible employees had to have completed ten (10) years of contracted service in the Valley Community School District, have reached at least age 55 on or before June 30, 2013, and be at least half time to qualify for early retirement. Electing employees will receive 80% of the employee's current (2012-2013) salary in accordance with one of the two following incentives: (a) payments into a 403(b) account in equal amounts over three (3) years, or (b) single insurance coverage paid monthly at the health insurance premium of the year of retirement. The certified employee is responsible for any increase in premium costs and for dependent insurance. If the employee indicates on the application form that the insurance coverage incentive will cease when the employee qualifies for Medicare or secures other employment in which the employer provides coverage, any remaining balance will be paid out in cash.

At June 30, 2013, the District had obligations to four participants under the plan with a total liability of \$ 199,422. No expenditures were made under this plan for the fiscal year ended June 30, 2013.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50603-9117

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Contribution requirements are established by state statute.

The District's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$ 243,284, \$ 246,480, and \$ 219,813, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 64 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 41,579
Interest on net OPEB obligation	2,288
Adjustment to annual required contribution	<u>(6,224)</u>
Annual OPEB cost	37,643
Contributions made	<u>(6,863)</u>
Increase in net OPEB obligation	30,780
Net OPEB obligation beginning of year	<u>91,514</u>
Net OPEB obligation end of year	<u>\$ 122,294</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$ 426,098 to the medical plan. Plan members eligible for benefits contributed \$ 87,521 or 17% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 32,932	9.6%	\$ 59,205
June 30, 2012	36,180	10.7	91,514
June 30, 2013	37,643	18.2	122,284

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$ 319,242, with no actuarial accrued value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 319,242. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$ 2.631 million and the ratio of the UAAL to covered payroll was 12.1%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual and ultimate medical trend rates are 6%. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000 (2/3 Female, 1/3 Male). Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan are \$ 554 per month for retirees less than age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group basis over 30 years.

(9) Risk Management

Valley Community School District is exposed to various risks of loss related to torts; thefts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$ 179,488 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Lease Commitments

The District has various leases for equipment which are classified as operating leases. Rent expenses for all operating leases for the year ended June 30, 2013 totaled \$ 57,712.

Future minimum lease payments under the non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2014	\$ 79,227
2015	65,350
2016	20,800

(12) Whole Grade Sharing Arrangement

The District has entered into a whole grade sharing agreement with the North Fayette Community School District effective July 1, 2013 and shall terminate on June 30, 2016 unless: terminated by majority vote of either District's Board of Education, extended longer by majority vote of each District's Board of Education, or termination by operation of law.

During the term of this agreement, each District shall maintain its own Pre-kindergarten through sixth grade. Grades seven and eight from both school districts will be located in the Valley Community School District facility. Grades nine, ten, eleven and twelve from both school districts will be located in the North Fayette Community School District facility. Both districts agree that arrangements for Special Education students will be made separately and billed back to the resident district as actual costs.

For the first two years of the agreement the Districts will share the actual cost of salaries added to each district for Whole Grade Sharing through the following:

- A. Determine new certified salary costs to each district generated by whole grade sharing.
- B. New salary and benefit costs in both districts will be prorated. Proration for each district will be calculated from the student population at the middle school or the high school as determined each semester on the first Monday of October and third Friday of February. The middle school/high school proration will be determined by dividing the individual district's population at the middle school or high school by the total enrollment of the middle school/high school respective population.
- C. Projected costs to be estimated for budgeting purposes. Actual costs to be paid August 15.

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES-
BUDGET AND ACTUAL-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2013

	Governmental Funds	Proprietary Fund	Total Actual	Budgeted Amounts	Budgeted to Actual Variance
Revenues:					
Local sources	\$ 2,926,857	124,718	3,051,575	2,927,805	123,770
State sources	2,551,252	1,907	2,553,159	2,560,249	(7,090)
Federal sources	371,697	108,946	480,643	274,400	206,243
Total revenues	5,849,806	235,571	6,085,377	5,762,454	322,923
Expenditures/Expenses:					
Instruction	3,209,716	-	3,209,716	3,131,180	(78,536)
Support services	1,437,750	488	1,438,238	1,574,655	136,417
Non-instructional programs	3,054	242,177	245,231	243,883	(1,348)
Other expenditures	593,357	-	593,357	598,503	5,146
Total expenditures/expenses	5,243,877	242,665	5,486,542	5,548,221	61,679
Excess (deficiency) of revenues over (under) expenditures/expenses	605,929	(7,094)	598,835	214,233	384,602
Other financing sources, net	-	-	-	20,430	(20,430)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	605,929	(7,094)	598,835	234,663	364,172
Balances beginning of year	2,320,938	25,027	2,345,965	1,111,292	1,234,673
Balances end of year	\$ 2,926,867	17,933	2,944,800	1,345,955	1,598,845

See accompanying independent auditor's report and notes to required
supplementary information-budgetary reporting.

VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2013, expenditures in the instruction and non-instructional programs functions exceeded the amounts budgeted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2013

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	262	262	0.0%	\$ 2,476	10.6%
2011	July 1, 2009	-	266	266	0.0	2,854	9.3
2012	July 1, 2009	-	266	266	0.0	2,739	9.7
2013	July 1, 2012	-	320	320	0.0	2,631	12.1

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	<u>Special Revenue</u>			
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS				
Cash and pooled investments	\$ 138,558	88,291	107,507	334,356
Receivables:				
Property tax:				
Delinquent	2,586	-	-	2,586
Succeeding year	90,000	-	-	90,000
Due from other governments	-	60	-	60
TOTAL ASSETS	<u>\$ 231,144</u>	<u>88,351</u>	<u>107,507</u>	<u>427,002</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	3,782	-	3,782
Deferred revenue:				
Succeeding year property tax	90,000	-	-	90,000
Total liabilities	<u>90,000</u>	<u>3,782</u>	<u>-</u>	<u>93,782</u>
Fund balances:				
Restricted for:				
Management levy purposes	141,144	-	-	141,144
Student activities	-	84,569	-	84,569
Debt service	-	-	107,507	107,507
Total fund balances	<u>141,144</u>	<u>84,569</u>	<u>107,507</u>	<u>333,220</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 231,144</u>	<u>88,351</u>	<u>107,507</u>	<u>427,002</u>

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2013

	Special Revenue			
	Management	Student	Debt	
	Levy	Activity	Service	Total
Revenues:				
Local sources:				
Local tax	\$ 2,586	-	-	2,586
Other	3,250	167,905	9	171,164
Total revenues	5,836	167,905	9	173,750
Expenditures:				
Current:				
Instruction:				
Regular	57,023	-	-	57,023
Other	-	165,471	-	165,471
Support services:				
Student	1,235	-	-	1,235
Instructional staff	1,016	-	-	1,016
Administration	15,111	-	-	15,111
Plant operation and maintenance	49,286	-	-	49,286
Transportation	9,211	-	-	9,211
Non-instructional programs	1,244	-	-	1,244
Other expenditures:				
Long-term debt:				
Principal	-	-	164,652	164,652
Interest and fiscal charges	-	-	10,879	10,879
Total expenditures	134,126	165,471	175,531	475,128
Excess (deficiency) of revenues over (under) expenditures	(128,290)	2,434	(175,522)	(301,378)
Other financing sources:				
Operating transfers in	-	-	279,367	279,367
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(128,290)	2,434	103,845	(22,011)
Fund balances beginning of year	269,434	82,135	3,662	355,231
Fund balances end of year	\$ 141,144	84,569	107,507	333,220

See accompanying independent auditor's report.

Schedule 3

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2013

Account	Balance Beginning of Year	Revenues	Expenditures	Interfund Transfers	Balance End of Year
Interest	\$ -	447	-	(447)	-
Drama	8,619	3,181	7,177	-	4,623
Junior High Drama	2,226	549	250	-	2,525
Speech	500	365	865	-	-
Vocal Music	935	6,105	5,087	14,586	16,539
Instrumental Music	1,269	2,840	1,202	-	2,907
Bank Carnival	4,264	-	454	(3,706)	104
Band Uniforms	15,073	81	241	(14,673)	240
Music Fundraisers	10,060	17,311	10,098	-	17,273
Junior High Athletics	-	776	2,608	1,832	-
Football Cheerleaders	423	1,339	1,305	-	457
Drill Team	87	3,327	2,300	-	1,114
Wrestling Cheerleaders	245	200	-	-	445
Girls' Track Fundraiser	4,020	2,478	3,174	-	3,324
Boys' Track Fundraiser	313	115	145	-	283
Cross Country Fundraiser	3,175	291	1,291	-	2,175
Golf Fundraiser	-	3,271	2,360	-	911
Boys' Basketball Fundraiser	2,390	1,558	2,591	-	1,357
Football Fundraiser	12,304	3,100	8,307	-	7,097
Baseball Fundraiser	35	5,246	4,683	-	598
Wrestling Fundraiser	962	1,139	1,604	-	497
Girls' Basketball Fundraiser	1,098	1,709	2,202	(477)	605
Girls' State Basketball Tournament	477	-	-	-	-
Volleyball Fundraiser	1,292	1,131	1,484	-	939
Softball Fundraiser	1,793	719	669	-	1,843
Cinder Track Fund	219	-	-	-	-
General Athletics	2,778	32,312	27,513	(219)	24
Student 0	2,131	3,086	2,703	(4,775)	3,161
National Honor Society	-	37,082	31,628	156	7,585
Student Council	-	-	156	-	-
Junior High Student Council	2,272	1,974	3,167	1,193	-
Yearbook	-	4,334	4,886	(231)	1,720
Class of 2013	-	7,850	7,309	-	310
Class of 2014	884	634	7,296	6,761	983
Class of 2015	1,048	22,407	20,716	-	2,739
Class of 2016	761	217	-	-	978
Class of 2017	260	197	-	-	457
Class of 2018	92	140	-	-	232
Class of 2019	130	234	-	-	364
	-	160	-	-	160
Total	\$ 82,135	167,905	165,471	-	84,569

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
Year Ended June 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash, cash equivalents and pooled investments	\$ 1,054,296	537,590	1,591,886
Receivables:			
Property tax:			
Delinquent	-	4,061	4,061
Succeeding year	-	98,421	98,421
Due from other funds	20,725	-	20,725
Due from other governments	241,976	16,783	258,759
TOTAL ASSETS	\$ 1,316,997	656,855	1,973,852
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 11,848	850	12,698
Due to other funds	-	14,020	14,020
Deferred revenue:			
Succeeding year:			
Property tax	-	98,421	98,421
Income tax surtax	-	16,783	16,783
Total liabilities	11,848	130,074	141,922
Fund balances:			
Restricted for:			
Debt service	625,838	305,174	931,012
School infrastructure	679,311	-	679,311
Physical plant and equipment	-	221,607	221,607
Total fund balances	1,305,149	526,781	1,831,930
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,316,997	656,855	1,973,852

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS ACCOUNTS
 Year Ended June 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 377,880	90,755	468,635
Other	11,260	9,244	20,504
State sources	21,316	81	21,397
Federal sources	159,882	-	159,882
Total revenues	570,338	100,080	670,418
Expenditures:			
Current:			
Instruction:			
Regular instruction	-	1,060	1,060
Support services:			
Plant operation and maintenance	12,858	13,776	26,634
Transportation	44,550	-	44,550
	57,408	13,776	71,184
	57,408	14,836	72,244
Other expenditures:			
Facilities acquisition	231,970	6,368	238,338
Total expenditures	289,378	21,204	310,582
Excess of revenues over expenditures	280,960	78,876	359,836
Other financing uses:			
Operating transfers out	279,367	-	279,367
Excess of revenues over expenditures and other financing uses	1,593	78,876	80,469
Fund balances beginning of year	1,303,556	447,905	1,751,461
Fund balances end of year	\$ 1,305,149	526,781	1,831,930

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES-
 AGENCY FUND
 Year Ended June 30, 2013

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ -	61,257	61,257	-
Due from other governments	21,683	38,754	26,968	33,469
TOTAL ASSETS	\$ 21,683	100,011	88,225	33,469
LIABILITIES				
Accounts payable	\$ -	82,935	66,542	16,393
Due to other funds	21,683	17,076	21,683	17,076
TOTAL LIABILITIES	\$ 21,683	100,011	88,225	33,469

See accompanying independent auditor's report.

Schedule 7

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
For the Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	Modified Accrual Basis									
Revenues:										
Local sources:										
Local tax	\$ 2,418,199	2,117,779	1,782,495	1,909,933	1,894,099	1,906,664	1,775,571	1,778,963	1,766,838	1,688,618
Tuition	185,326	160,107	209,449	138,133	91,017	113,533	106,734	85,134	80,288	113,882
Other	323,332	365,583	403,740	373,340	349,125	236,143	263,299	329,152	296,600	257,836
Intermediate sources	-	-	-	-	-	-	6,460	-	-	-
State sources	2,551,252	2,502,761	2,562,210	2,246,320	2,640,325	2,783,929	2,624,274	2,533,585	2,387,749	2,217,454
Federal sources	371,697	297,125	348,221	566,768	280,828	209,152	197,139	225,382	419,049	1,050,836
Total	\$ 5,849,806	5,443,355	5,306,115	5,234,494	5,255,394	5,309,421	4,973,477	4,952,416	4,950,524	5,328,626
Expenditures:										
Instruction:										
Regular	\$ 1,972,437	2,204,464	1,991,802	2,252,887	1,843,788	1,896,250	1,804,343	1,658,069	1,617,642	1,672,441
Special	814,368	963,387	1,157,964	1,001,149	874,493	851,606	885,510	889,263	764,552	651,501
Other	422,911	318,826	296,422	346,875	278,325	274,651	264,223	306,623	368,660	421,808
Support services:										
Student	127,182	125,589	138,701	191,771	181,668	152,853	108,143	106,469	109,244	97,044
Instructional staff	265,252	171,491	240,901	228,485	163,025	145,670	143,392	146,601	110,574	145,799
Administration	453,590	580,452	611,361	559,277	522,636	491,057	512,477	537,970	520,321	483,493
Plant operation and maintenance	402,333	499,291	448,853	530,620	731,418	387,980	363,446	458,363	367,752	372,824
Transportation	189,393	171,692	206,585	341,598	226,657	216,711	208,027	156,996	212,092	233,259
Central support	-	-	-	-	-	-	-	-	1,813	1,574
Non-instructional programs	3,054	2,968	2,547	1,563	793	1,438	1,318	2,712	750	564
Other expenditures:										
Facilities acquisition	238,338	37,455	34,762	551,525	81,255	35,575	112,109	43,597	591,851	1,334,186
Long-term debt:										
Principal	164,652	156,095	165,999	177,519	104,696	221,671	220,000	220,000	215,000	135,000
Interest and other charges	10,879	18,436	26,127	20,136	22,371	30,333	37,954	46,747	54,828	90,423
ARA flowthrough	179,488	179,347	203,209	201,734	186,928	186,469	177,469	172,207	169,150	169,534
Total	\$ 5,243,877	5,429,493	5,525,233	6,415,139	5,218,053	4,892,284	4,838,411	4,745,617	5,104,159	5,809,450

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Valley Community School District

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Valley Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley Community School District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Community School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Valley Community School District's Responses to Findings

Valley Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Valley Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

November 1, 2013

A handwritten signature in cursive script that reads "Dietz, Donald & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses were identified.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

II-A-13 Certified Budget - Expenditures for the year ended June 30, 2013 exceeded the certified budget amounts in the instruction and non-instructional programs functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the budget is not exceeded.

Conclusion - Response accepted.

II-B-13 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 were noted.

II-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-13 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-13 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

- II-F-13 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-13 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-H-13 Supplementary Weighting - A variance regarding the supplementary weighting certified to the Iowa Department of Revenue was noted.
- Recommendation - The District should take care that the certified supplementary weighting is accurate. We will contact the Department of Management and the Department of Education notifying them of the difference.
- Response - The District received notice after October 1 of possible additional weighting for 1 student. We will try to be more careful in the future at properly counting these students.
- Conclusion - Response accepted.
- II-I-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12 C of the Code of Iowa and the District's investment policy were noted.
- II-J-13 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- II-K-13 Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.
- II-L-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain elements related to the statewide sales, services, and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

II-L-13 Statewide Sales, Services and Use Tax (continued)

Beginning balance		\$ 1,303,556
Revenues:		
Sales tax revenues	\$ 377,880	
Other local revenues	11,260	
State sources	21,316	
Federal sources	<u>159,882</u>	<u>570,338</u>
		1,873,894
Expenditures/transfers out:		
Equipment	\$ 57,408	
Facilities acquisition	231,970	
Transfers to debt service fund	<u>279,367</u>	<u>568,745</u>
Ending balance		<u>\$ 1,305,149</u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-13 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.